



**DION DURRELL**

*Actuaries and Consultants*

**D O C T O R S   D I R E C T  
I N S U R A N C E ,   I N C .**

**Loss Reserve Analysis as of December 31, 2007**

**Confidential Report for Internal Use by  
Doctors Direct Insurance, Inc. Only**

**Final Report  
May 22, 2008**

**DION, DURRELL + ASSOCIATES INC.**

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## TABLE OF CONTENTS

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<b><u>SECTION</u></b>	<b><u>PAGE</u></b>
I. INTRODUCTION.....	1
II. SUMMARY OF FINDINGS AND RECOMMENDATIONS .....	3
III. VALUATION BASIS .....	4
 <b>SCHEDULES</b>	
Schedule 1 - Summary of Main Provisions .....	7
 <b>EXHIBITS</b>	



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## **I. INTRODUCTION**

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Dion, Durrell + Associates Inc. has conducted an actuarial valuation of the loss and loss adjustment expense reserves of Doctors Direct Insurance, Inc. (“DDI”) as of December 31, 2007.

### **OBJECTIVES**

The objectives of the actuarial valuation are to determine DDI’s liabilities for losses and loss adjustment expenses as of December 31, 2007 on both a gross (direct and assumed) and net of reinsurance basis.

For ease of reference, our findings and recommendations are presented in a summary form in Section 2 of the report. The details of our analyses are contained in the following sections of the report including the Schedules and Exhibits.

### **GENERAL**

DDI began writing insurance policies in March 2007, and writes medical professional liability policies on a claims-made basis in the state of Illinois, with policies in-force on 17 physicians as of December 31, 2007.

DDI insures physicians’ professional liability claims with similar coverage terms to other insurers of physician professional liability insurance companies writing business in the state of Illinois.

DDI purchases insurance protection in the form of excess insurance. The main provisions of this excess coverage are summarized in Schedule 1.



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## LIMITATIONS

For the purposes of our actuarial valuation, we were provided with data from DDI on its claims and risk exposures. These data reconcile to Schedule P and the income statement of DDI's annual statement as of December 31, 2007. Aside from this reconciliation, we have relied on such data without any detailed audit or verification.

Dion, Durrell + Associates Inc. does not assume the responsibility for the result of any error or omission in the data or other materials furnished to it in the preparation of this report.

By its nature, the reserve estimates in this report are subject to statistical and other deviations in its loss experience. As a result, we cannot guarantee that our projections of the program's ultimate liabilities and future loss experience represent the maximum exposure to losses for DDI.

This report is strictly for the use of Doctors Direct Insurance, Inc. and its advisors in the context of their work for DDI. Any other use or disclosure should be discussed first with Dion, Durrell + Associates Inc. If our report is distributed further, it must be distributed in its entirety. All recipients of this report should be aware that the actuaries and consultants signing the report are available to answer questions about its content.



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## II. SUMMARY OF FINDINGS

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Our main findings and recommendations are presented below. The details of our analyses are described in the following sections of the report including the attached Schedules and Exhibits.

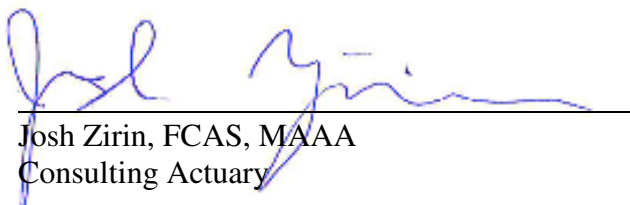
### FINDINGS

Based upon the coverage provided by the program, the actuarial assumptions and valuation methods used, and the data available, and our understanding of DDI's accounting requirements, we recommend the following:

1. Estimated reserve for net outstanding losses and loss adjustment expenses      \$ 173,619
2. Estimated reserve for gross outstanding losses and loss adjustment expenses      \$ 232,000

We are pleased to have conducted this actuarial valuation of the program and are available to discuss the results of our work as may be required.

Respectfully submitted,



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Josh Zirin, FCAS, MAAA  
Consulting Actuary



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### **III. VALUATION BASIS**

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Our actuarial valuation was based on the following:

1. The coverage provided or to be provided by DDI for policies incepting in 2007.
2. The data collected on the exposures and losses under the program as of December 31, 2007 for policies incepting in 2007.
3. A set of actuarial assumptions and valuation methods.

All of these elements are discussed in the following paragraphs.

#### **COVERAGES PROVIDED UNDER THE PROGRAM**

Schedule 2 summarizes the main provisions of the coverage provided by the program.

The key elements and our observations on the program's coverage are noted below.

1. DDI covers professional liability claims incurred by its physician insureds.
2. The insurance and reinsurance is provided on a claims-made basis.
3. We have assumed that all amounts, if any, due under the reinsurance policies would be collectible. Any net liabilities to DDI as a result of unrecoverable amounts have not been reflected in this valuation.



## **LOSS AND EXPOSURE DATA**

As of December 31, 2007 there was one incident reported to DDI with case reserves of \$10,000 for indemnity and \$3,000 for loss adjustment expense (“LAE”).

Exposure information was provided in the form of a physician roster listing the in-force policies along with information on the physician specialty and premiums.

Given that DDI has recently incepted writing business, we have relied primarily on initial expected loss ratio selections and loss development based on industry data in our analysis.

The data is considered sufficient for the purposes of our actuarial valuation.

## **ACTUARIAL ASSUMPTIONS AND VALUATION METHODS**

The actuarial assumptions and valuation methods selected for the purposes of our actuarial valuation of the program as of December 31, 2007 are summarized as follows.

The values for each report year are selected based on judgment and the resulting values under each of the following two methods:

- Tabular Method – Payout Pattern: Outstanding liabilities for each year are established based on the expected losses for such year and the expected claim payout and total reserves patterns without recognition of the actual payment/reserve experience for that year.
- Tabular Method – Outstanding/IBNR: Outstanding liabilities for each year are established based on the expected losses for such year and the expected outstanding and IBNR reserves without recognition to the actual loss development experience for that year.

In each case expected losses were based on DDI’s earned premiums multiplied by the expected loss and ALAE ratio from the initial DDI rate filing for claims made medical professional liability insurance for physicians and surgeons effective March 1, 2007.



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Paid and incurred loss development assumptions were selected based on a review of Schedule P information as of December 31, 2007 from other physician professional liability insurers.

Our final selection of IBNR and outstanding liabilities recognizes the results under each of the two methods and judgment regarding recognizing the experience to date and establishing a reasonable methodology for the estimation process.

Exhibit 1 shows the details of the calculation of DDI's outstanding liabilities for loss and LAE on a net basis. Exhibit 2 shows the similar calculation for the outstanding liabilities for loss and LAE on a gross basis using similar assumptions adjusted for differences in the limits of coverage on a gross of reinsurance basis.





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## SCHEDULE 1

### DOCTORS DIRECT INSURANCE, INC.

#### Summary of Main Provisions

- |                       |   |
|-----------------------|---|
| 1. Inception          | March 2007  |
| 2. Fiscal Year        | January 1 to December 31  |
| 3. Type of Coverage   | Physicians' Professional Liability  |
| 4. Nature of Coverage | The coverage is provided on a claims-made basis.  |
| 5. Policy Limits      | Policies are written with limits of \$1,000,000 per claim / \$3,000,000 annual aggregate per physician. |
| 6. Reinsurance        | The following reinsurance terms are in effect:  |

<u>Reinsurance Term</u>	<u>DDI per Claim Retention</u>	<u>Reinsurance Limit<sup>(2)</sup></u>
2007/2008 <sup>(1)</sup>	\$250,000	\$750,000

<sup>(1)</sup> March 1, 2007 through February 29, 2008

<sup>(2)</sup> Pro-Rata ALAE in addition to the limit

# EXHIBIT 1

## DOCTORS DIRECT INSURANCE, INC.

### *Calculation of Net Outstanding Liabilities by Report Year as of December 31, 2007*

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
				= (1) x (2) x (3)		= (4) - (5)		= (1) x (2) x (7)		= (5) + (9)
Report	Net	Expected	Expected	Expected	Case	IBNR by	Expected	IBNR by	Selected	Net
Year	Earned	Loss/LAE	Unpaid %	Total	Reserve	Payment	IBNR %	Outstanding	IBNR	Outstanding
	Premium	Ratio		Reserve		Pattern		Method		Liability
2007	267,106	0.81	0.950	205,112	13,000	192,112	0.393	84,959	160,619	173,619
Total	267,106			205,112	13,000	192,112		84,959	160,619	173,619

Notes: (1), (5) Provided by DDI.

(2) Based on DDI February 2007 Rate filing (excluding loading for DDR).

(3),(7) Selected based on experience of other monoline physician insurers.

## EXHIBIT 2

### DOCTORS DIRECT INSURANCE, INC.

#### *Calculation of Gross Outstanding Liabilities by Report Year as of December 31, 2007*

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
				= (1) x (2) x (3)		= (4) - (5)		= (1) x (2) x (7)		= (5) + (9)
Report	Gross	Expected	Expected	Expected	Case	IBNR by	Expected	IBNR by	Selected	Net
Year	Earned	Loss/LAE	Unpaid %	Total	Reserve	Payment	IBNR %	Outstanding	IBNR	Outstanding
	Premium	Ratio		Reserve		Pattern		Method		Liability
2007	371,932	0.76	0.975	275,602	13,000	262,602	0.450	127,201	219,000	232,000
Total	371,932			275,602	13,000	262,602		127,201	219,000	232,000

Notes: (1), (5) Provided by DDI.

(2) Assumes slightly lower reinsurer expected loss ratio than primary reflecting higher reinsurer profit and contingencies margin.

(3),(7) Selected based on experience of other monoline physician insurers, with adjusted longer development patterns for gross versus net losses.

Doctors Direct Insurance Inc.  
FEIN 06-1791609  
NAIC 12843

**Company Defined Items:**

1. All company data is reported on a "by county" basis where required and is consistent with the ratemaking practices of Doctors Direct Insurance.
2. This is the first year of operations for Doctors Direct Insurance and therefore there are no changes to report in reserving or claim payment practices.
3. A closed claim is a claim that both is assigned a closed date and any and all payments have been made and there are zero (0) unpaid reserves for indemnity and LAE.
4. A corporate policy is coverage with a separate limit of \$1,000,000/\$3,000,000 for the corporate entity of a physician group. The coverage limit is available to the **ADDITIONAL INSURED(s)** (non-physician employees) on a shared basis per claim.
5. The base class has been defined in most recent filed rate forms as Cook County Specialty class 4.
6. No adjustments have been made to exposures for extended reporting endorsements. No extended reporting endorsements have been issued.
7. Tail factors are applied uniformly to all maturity years. Doctors Direct Insurance offers the following: 12 month ERE – 100% of actual premium in effect at policy issuance. 24 month ERE - 160% of actual premium in effect at policy issuance. 36 month ERE – 190% of actual premium in effect at policy issuance. Unlimited period – 210% of actual premium in effect at policy issuance.
8. Expense factors include: General and Other Acquisition expense 9.0%, Taxes Licenses and Fees 2.0%, Profit and contingences 5.0%
9. Other factors used in establishing the rates included claims free credit up to 20%, Scheduled Debit and Credit plus or minus 15%, New physician credit up to 50%. Combined the credits were estimated to result in an average of 18.7% credit to manual rates.
10. As a startup company with no claims data reserving assumptions were made on the basis of industry comparisons to startup companies writing medical malpractice insurance. Reserves were deemed adequate for 2007 based on a net earned premium loss and LAE ratio of 70%.

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**Reconciliation:**

The reported amounts for paid losses filed in the (C-5)(1) and the premium, payment and reserve information in the (C-5)(2) Reserve Study reports reconcile to the paid losses in Schedule P of the 2007 Annual Statement. The amounts in the (C-5)(2)(a) Surplus Study reconcile to Capital and Surplus section of page 4 of the 2007 Annual Statement.

I certify that the data filed under these requirements is accurate to the best of my knowledge and reasonably reconciles with the most recently filed annual statutory financial statement, as described in the preceding paragraph.

Jeffrey B. Strand, President  
Doctors Direct Insurance Inc

Josh Zirin, Consulting Actuary  
Dion Durrell